Forestry Innovation Investment Ltd.

2014/15
ANNUAL SERVICE PLAN REPORT

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Board Chair's Message and Accountability Statement

I am pleased to submit Forestry Innovation Investment's *Annual Service Plan Report 2014/15*.

For the B.C. forest industry, 2014 continued a trend of steadily improving financial performance over the past five years. Export revenue rose to $12.4 billion in 2014 from $11.7 billion in 2013. Sales to the United States and China accounted for about 45 per cent and 31 per cent respectively of the total. Forestry Innovation Investment (FII) remains focused on developing and diversifying markets for B.C. forest products while promoting B.C. as a world-leading supplier of environmentally friendly forest products This includes giving high priority to promoting the use of B.C. lumber as structural building components in China, and opening up the market for non-structural applications in India.

In early 2014/15, FII underwent a Core Review guided by the Ministry of International Trade. The purpose of this comprehensive mandate review was to ensure that Government's investments in FII represent the best possible use of resources and respect for interests of the taxpayer. The findings of the Core Review, which incorporate the input of a broad range of FII's key stakeholders, were presented to the Cabinet Committee on Core Review in June, 2014. The FII Board addressed many of the Committee's conclusions during the past year and will continue to implement the directives in 2015/16.

I am pleased to confirm that FII has long functioned in accordance with Government's Taxpayer Accountability Principles, and in recent months has more formally ascribed to and implemented the principles according to government direction.

In terms of financial performance, in 2014/15, FII received $17.4 million in funding from the Province, $1.1 million from the Government of Canada (mostly in support of the new subsidiary in India), and $1.2 million from other sources. FII ended the year with an unspent surplus of $112,000. Just under half of all expenditures were directed at cost-sharing activities that trade associations proposed through a competitive process and ultimately delivered.

The *Forestry Innovation Investment Ltd 2014/15 Annual Service Plan Report* compares actual results to the expected results identified in the *2014/15 – 2016/17 Service Plan*. I am accountable for those results as reported. All significant assumptions, decisions, events and identified risks as of March 31, 2015 have been considered in preparing this report.

Tim Sheldan
Board Chair

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Purpose of the Organization

Forestry Innovation Investment Ltd. (FII) was incorporated in 2003 under the *Business Corporations Act* as the Government of British Columbia's market development agency for forest products. FII's mandate, as specified in its 2014/15 Government's Letter of Expectations, is to work with the forest industry to develop and diversify markets for B.C. forest products while promoting B.C. as a world-leading supplier of environmentally-friendly forest products.

FII works with the forest industry, the Government of Canada, research institutions, and other stakeholders to deliver forward looking, innovative market development programs. To provide the best value to taxpayers and stakeholders, and reflecting the Province's Taxpayer Accountability Principles, FII uses a collaborative model for program delivery. This approach takes advantage of industry expertise and marketing networks, and ensures that program costs are shared with other organizations. Through this cooperative model, FII programming is working to strengthen the forest economy and create jobs in B.C.

FII maintains two operating and one non-operating subsidiaries:

FII Consulting (Shanghai) Co. Ltd. (FII China) (wholly owned by Forestry Innovation Investment Ltd.)

FII China supports the B.C. forest sector by providing market research, technical wood frame building expertise and related liaison with Chinese government authorities on behalf of industry. The operation focuses on growing the market for B.C. wood products in China, primarily by creating new demand for structural lumber and related building products.

Forestry Innovation Consulting India Private Limited (FII India) (wholly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.)

FII India works to develop the Indian market for B.C. forest products through market research, promoting B.C. wood products and related technologies, providing intermediation with India regulatory authorities, and providing direct support for B.C. companies entering the India market. The main focus is on creating new demand for B.C. lumber in the furniture, window and door, interior millwork, and other non-structural applications.

0939031B.C. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

The sole function of this non-operating company is to serve as the second shareholder of FII India (reflecting India's legislative requirement that foreign-owned companies have at least two shareholders).

Strategic Direction and Context

Strategic Direction

The mandate of Forestry Innovation Investment (FII) is to work with the forest industry to develop and diversify markets for B.C. forest products while promoting B.C. as a world-class supplier of environmentally-friendly forest products. In support of the *BC Jobs Plan*, and as outlined in the 2014/15 Government Letter of Expectations (GLE) from the Minister of International Trade, FII focused on four strategic priorities during the year:

- In collaboration with forest-industry trade associations and the Government of Canada, determine priorities and strategies and deliver programs to significantly enhance international sales of British Columbia forest products, stimulating long-term diversification of the forest industry's customer base.
- Lead delivery of the Province's Wood First initiative by working with the B.C. forest industry, architects, engineers, developers, builders and others to make British Columbia a world-class centre of excellence in manufacturing and using innovative forest products.
- Through subsidiary corporations in China and India, pioneer interest in utilizing British Columbia wood products, paving the way for British Columbia firms and their trade associations to establish commercial linkages.
- In collaboration with industry organizations in Canada and the United States, develop fact-based and scientific information, and robust electronic and other communications tools, to make foreign customers and government regulators aware of the environmental and technical merits of British Columbia forest products.

By aligning its medium-term activities with the Ministry of International Trade's efforts in international markets, and by emphasizing a joint-delivery approach with industry, FII ensures efficient use of resources and delivers maximum value for B.C. taxpayers and forest-sector stakeholders.

New to FII for 2014/15 was the Taxpayer Accountability Principles Addendum to the 2014/15 Government Letter of Expectations, which set out specific actions to ensure that the Company's decisions continue to reflect the priorities and values of the government and the citizens of B.C.

Strategic Context

International market development efforts during the year were influenced by a wide range of factors, many outside the control of FII. These included currency exchange-rate volatility, varying economic growth in key regions, and local market factors that reflected demand for housing and capital construction, including interest rates, employment levels, and various types of incentive programs targeted to home buyers. Of these factors, those that influenced demand in the United States, China and Japan were the most significant, as these three countries account for more than 85 percent of international sales of B.C. wood products.

During 2014/15, stronger economic growth in the United States led to improved wood product sales by volume and price. This had a positive influence on meeting performance against targets outlined in the 2014/15 Service Plan. At the same time, slower economic growth in China and, to a lesser extent in Japan, had a dampening effect on demand and sales in Asia. This impact was partially offset by a weakening value of the Canadian dollar against the U.S. currency (i.e., because most B.C. forest product exports are transacted in U.S. dollars) as well as a falling global price for oil, which lowered production costs at home and helped stimulate demand, particularly in China.

In B.C. and across North America, the acceptance of new generation wood technologies such as taller wood buildings, and products such as cross-laminated timber, continued to accelerate during the year. This bodes well for the increased use of wood in the high-potential non-residential construction market, a performance target for FII.

In March 2014, Tim Sheldan, Deputy Minister for Forests, Lands and Natural Resource Operations was appointed Chair of the FII Board of Directors. Also during the year, a new Country Director for India, Pranesh Chibber, was retained; there were no other significant changes in FII's internal operating environment in 2014/15.

Report on Performance

Goals, Strategies, Measures and Targets

FII's goals, strategies, measures and targets are aligned with the Government's strategic direction as articulated in the 2014/15 Government's Letter of Expectations. They are aligned with the Taxpayer Accountability Principles (TAP) Addendum to the Letter (Addendum), and emphasize efficiency, accountability and integrity in the delivery of FII programs and in managing relationships. In 2014/15, FII updated its standards of conduct to ensure consistency with other public sector organizations, and participated in drafting the Ministry of International Trade's Strategic Engagement Plan, which includes quarterly meetings between the Minister and the Board Chair, Chief Executive Officer (CEO) and the Deputy Minister that focus on the organization's performance against the TAP. FII will be collaborating with the Ministry of International Trade on other elements, such as the completion of an evaluation plan for FII, as these advance in 2015/16.

FII's investments in 2014/15 focused on innovation and market development to strengthen the position of the forest sector in its conventional product and market mix, and on areas of new opportunity. FII continued to work with industry and other levels of government to capitalize on opportunities arising from the development of a new generation of engineered products and building systems, and the rapid emergence of the "bio-economy". These developments have the potential to be economic game changers for the sector, generating new wealth, more skilled jobs and greater stability for communities and workers. During 2014/15, FII directed its investments to encourage industry to pursue these new avenues as well as to move up the value chain by creating higher margin products and services to increase B.C.'s competitive advantage in markets.

The following describes the specific goals, strategies and performance targets pursued by FII during 2014/15. More detailed descriptions of programs, activities and the business model can be found at www.bcfii.ca and in the Company's annual Report to Stakeholders 2014.

Goal 1: Wood is viewed as an environmentally-friendly, preferred material, and B.C. is recognized as a reliable supplier of quality products from sustainably-managed forests.

The primary objective of Goal 1 is to expand opportunities for B.C. forest products by positioning wood and wood-based products from B.C. as the first choice for environmentally-friendly building materials. The strategies under Goal 1 create a solid foundation for answering "Why wood?", and "Why wood from B.C.?" – upon which many of FII's other market development investments and activities are based.

FII's work in support of Goal 1 focused on taking advantage of two significant trends in the marketplace – the emerging recognition of wood products as "green", and increasing demands from consumers for forest products that are produced in an environmentally-responsible manner. As

customers consider environmental factors in their purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material; its advantages in creating a significantly smaller environmental footprint than other building materials; and the fact that wood and pulp-and-paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint. These environmental benefits of wood apply equally well to higher-margin wood products manufactured in B.C.

Strategies pursued in 2014/15 were designed to build on the growing awareness of the benefits of wood products, and position B.C. as a global leader in sustaining forest resources and environmental values. This dual positioning is helping strengthen awareness of, and interest in, B.C. forest products in major markets and, in turn, supporting greater market share, premium positioning, and easier access to new markets.

Strategies

FII and its funding recipients pursued Goal 1 by:

- Providing timely and factual information regarding B.C. forest products and forest practices.
- Championing science-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and climate change context.
- Collaborating with forest-sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts.
- Monitoring and advocating in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

Performance Measure 1A: Customer Perceptions of B.C. Forest Products.

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment.	98%	n/a[1]	98%	n/a[1]	n/a[1]	90%	n/a[1]

Data Source: The Research Intelligence Group. "Analysis of Market Acceptance Issues", April 2014.

[1] Surveys are conducted biennially.

Discussion

Positioning British Columbia as a preferred global supplier

The measure provides an indication of the effectiveness of FII's international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a biennial survey of international customers (e.g., large institutional pulp and paper buyers, wood importers and distributors, and carbon market stakeholders) conducted by an independent research firm. The survey identifies the percentage of customers who feel that B.C.'s environmental reputation is as good as, or better than, the average of competing forest products jurisdictions. FII has seen performance strengthen over the past decade. Because there will always be some who disagree with timber harvesting of any nature, FII believes that maintaining an "approval rate" of 90% is a laudable target.

Goal 2: Sales of B.C.'s conventional and emerging forest products are greatly expanded in markets offering high potential returns.

Goal 2 drives FII's efforts to assist the B.C. forest industry in developing and diversifying markets to optimize returns by achieving a balance in the products, species, and grades to given markets. Within this goal there is a particular focus on Asia, where markets have distinctly different profiles ranging from a high volume/low grade mix in China, to a medium volume/higher grade mix in Japan. The efforts of FII and its funding recipients build on the strategies, and the science and reputational foundation, developed under Goal 1.

Optimization of the global market development strategy includes creating or expanding new market segments in traditional regions (e.g., non-residential and multifamily/mid-rise construction in the U.S.), as well as fostering demand in segments not currently using high volumes of B.C. forest products (e.g., the multi-family and non-residential construction sector in China and the domestically focused re-manufacturing sector in India).

Activities associated with Goal 2 recognize the progress made in diversifying B.C. exports away from historically heavy dependence on the U.S. single-family housing sector. Programs in this area also focus on achieving a long-term balance between existing and emerging markets and traditional and innovative new products, including the increase in sales of higher margin products into traditional markets such as North America.

During 2014/15, the strategies under this goal included a mix of activities delivered by third parties and by FII[1].

[1] FII collaborates with industry trade associations, the federal government and other funding bodies to leverage its investments for the greatest potential return for B.C. Working with those organizations, FII's objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

Strategies

FII has pursued Goal 2 by:

- Funding trade-association market development programs based on priorities outlined in FII's annual investment strategies.
- Engaging with industry and foreign government agencies to eliminate barriers to access in foreign markets.
- Initiating early-stage market development efforts in emerging economies.
- Providing funding to complete disaster reconstruction projects under the Canada-Tohoku Reconstruction Project in Japan.
- Partnering with the federal government and working with B.C. and bi-national trade associations to expand the use of wood in the non-residential and multi-family construction sectors in North America.
- Engaging industry and institutional partners to explore market development potential for commercial or near-commercial bio-products.

Performance Measure 2A: B.C. Lumber Exports to Priority Asian Markets.

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
B.C. softwood lumber exports to priority Asia Pacific markets (000's of m^3).							
China	7,315	7,506	7,998	7,900	7,600	8,100	8,300
Japan	2,451	2,442	2,626	2,900	2,136	3,000	3,100
South Korea	164	192	238	265	252	290	315

Data Source: BC Stats.

Discussion

B.C. exports of softwood lumber to priority Asia Pacific markets

The measure tracks the extent to which the B.C. forest industry is successful in diversifying markets with a focus on Asia for the long term. Measure 2A is an indicator of market diversity and greater overall demand in Asia. The target is weighted to sales in China, where FII investments are leveraging a significant joint industry and government (provincial and federal) market development effort to position B.C. as the leading exporter of sofwood lumber to China. Export volume totals are based on Statistics Canada data compiled by BC Stats.

China:

B.C. exports to China remained strong in 2014/15. Though down by five per cent in volume from the previous year (after increasing by some 2,400 per cent between 2003 and 2013), the revenue from

those sales increased by two per cent. FII anticipates that while volumes may not continue to increase at the rate seen in previous years, returns from China will continue to grow due to a better volume/value mix of products.

Japan:
B.C. exports to Japan remain largely dependent on that country's pace of housing starts, which stagnated during the year due in part to increases in consumption taxes which increased unit costs and dampened demand. However, opportunity continued to emerge in other segments including the non-residential sector where non-wood construction materials and systems have dominated. Modest growth in housing starts is anticipated through 2015/16 as the phenomenon of trying to skirt the increase in consumption tax fades. The Trans-Pacific Partnership (TPP) Agreement, which is currently under negotiation, will benefit B.C. exports by potentially reducing trade tariffs and opening new markets for BC wood exports.

South Korea:
Performance in South Korea is heavily dependant on the volume of B.C. lumber consumed in wood frame applications. 2014 saw renewed growth in Korea's construction sector, due in part to relaxation of capital gains taxes for homeowners. Canada and South Korea concluded a free trade agreement during the year that will reduce import tariffs for Canadian wood products. The agreement is expected to have a small but positive impact on opportunities in the market.

Note: In mid-2012, FII created a subsidiary company in India focused on building a new market for B.C. wood products. While India represents an exciting new opportunity for B.C. wood species, FII's market development efforts in the country remained in their infancy in 2014/15. During the year, extensive research and pre-commercial efforts were undertaken to help FII and the B.C. industry assess market interest, refine entry strategies, and begin to link commercial interests in India and B.C. Performance measures specific to this pre-commercial effort are being developed and will be reported on in subsequent Annual Service Plan Reports.

Performance Measure 2B: Incremental Volume Consumed in U.S. Non-Residential and Multi-Storey Residential Market.

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Incremental volume consumed in targeted non-residential and multi-storey residential structures in the U.S. (millions of board feet)	257	115	306	460	339	580	720

Data Source: US Woodworks Program

Discussion

Lumber consumed in targeted non-residential and multi-storey, multi-family residential structures in the United States

Most single-family housing in North America uses wood frame construction as the primary building method. However, wood enjoys a smaller share of non-residential structures and multi-storey, multi-family residences. The forest industry in B.C., the rest of Canada and the U.S. has a strong interest in seeing wood products secure a much higher share of those structures.

Performance Measure 2B tracks the incremental increase in the volume of lumber used in projects where FII-funded programs are directly involved.

For 2014/15, the incremental volume of B.C. lumber consumed in non-residential and multi-storey was 339 million board feet, up 11 per cent over the previous year, but well below the target of 460 million board feet. Reported volumes reflected a somewhat slower pace of recovery than forecast across the U.S. construction sector during the year. Of note, the program converted a greater number of projects to using wood (370) than in any previous year, which bodes well for continued growth in wood volumes. This was evident in the consumption of B.C.-origin panel products which grew to 152 million square feet in 2014/15 from 92 million square feet the previous year.

In 2014/15, FII's ability to achieve Performance Measures 2A and 2B was heavily contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. The specific performance measures contained in this report, and in the agreements with FII's funding recipients, are directly linked to FII's broader goals and targets. For more details, please refer to FII's Performance Management Framework.

Goal 3: B.C. is a world-class centre of excellence in developing and using innovative wood products and building systems.

This goal supports the Province's objectives of making B.C. a centre of excellence in living and building with wood, and generating greater product value in the forest economy. These objectives are based on the recognition that long-term sustainability of the forest economy includes maintaining and growing sales, as well as driving up the value of sales, through the introduction of innovative forest products, new building methods, ease of compliance with building regulations, effective knowledge transfer programs, and a competitive and capable value-added sector of the forest industry. The ultimate objective of making B.C. a centre of excellence is to create innovation that can be exported to other regions in order to stimulate enhanced demand over the long-term.

The primary focus of efforts under Goal 3 is to create demand for B.C. wood-based products and building systems, and to develop innovative ways to meet the demand.

Goal 3 efforts are delivered primarily through the *Wood First* initiative, emanating from the Province's Working Roundtable on Forestry in 2008. The Province followed the *Wood First* initiative with the *Wood First Act* in 2009 to take a leadership position in utilizing more wood in provincially funded buildings, which is intended to further leverage products, technologies and services into the municipal and private sectors.

FII is responsible for implementing the Government's *Wood First* initiative, with the exception of the *Wood First Act*. An independent Wood First Advisory Committee provides strategic guidance on implementation priorities.

Strategies

FII has pursued Goal 3 by:

- Establishing a "culture of living and building with wood" in B.C. by encouraging local governments to adopt supportive policies and encouraging development of related education programs.
- Maximizing the appropriate use of wood in B.C.'s public and private construction by leveraging Provincial capital projects to showcase wood construction.
- Accelerating the adoption of existing and emerging wood-based products and building systems in B.C. by supporting targeted research and technical case studies and guidelines.
- Strengthening B.C.'s capacity to produce competitive wood-based products and building systems by improving entrepreneurial skills in the value-added wood products industry and enhancing innovative design projects.
- Positioning B.C. as a world leader in sustainable and innovative wood-based products and building systems by facilitating alternative solutions, showcasing B.C.'s expertise and supporting technology and knowledge transfer.

Performance Measure 3A: Incremental Volume Consumed in B.C.'s Non-Residential Construction Sector.

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Incremental Sales Generated in B.C.'s Non-Residential Construction sector (millions of board feet)	61	71.5	60	80	81	88	90

Data Source: Canadian Wood Council

Discussion

Incremental sales generated in B.C.'s non-residential construction sector

This measure tracks success in increasing wood usage in B.C. in construction sectors other than single-family residential (i.e., mainly in the commercial, institutional and multi-family residential sectors). The measure indicates the increased volume of wood sales generated in the year through program activities funded by FII in partnership with the Canadian Wood Council, which tracks the relevant data not only in British Columbia, but also across the country.

The 2014/15 target was met. The volume was based on 49 projects with a total construction value of $1 billion. Schools, gymnasia, community halls, libraries, transit stations, clubs, lecture halls make up more than half of these projects, with schools alone accounting for one-third of the total.

The ability to achieve Performance Measure 4 is contingent upon the performance of FII's funding recipients in their delivery of Wood First programming. Timely funding decisions by FII ensure that funding is available to successful proponents by the start of each fiscal year. As part of the funding

approval process, performance measures are established for each project with direct linkage to FII's broader goals and targets. For more details, please see FII's Performance Management Framework at www.bcfii.ca.

Goal 4: FII serves its stakeholders in a highly effective, innovative and responsive manner.

FII's business practices incorporate robust financial controls and a performance management framework including monitoring, audit and evaluation, built on a comprehensive risk-assessment strategy. FII is committed to environmental sustainability and minimizing its environmental footprint in order to protect the natural environment and the B.C. economy for future generations.

Consistent with the strategic direction in the Taxpayer Accountability Principles Addendum to FII, FII places significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies. The objective is to leverage the expertise and financial resources unique to each player across Canadian and international forest sectors, and to create critical mass in the development and delivery of strategic and focused market and product development programming. Following on directives from the 2014 Core Review, FII increased industry's share of the cost of its off-shore work from 15 per cent in 2013/14 to 20 per cent in 2014/15 and will increase it to 25 per cent for 2015/16[2].

Strategies

FII strives to achieve Goal 4 by:

- Ensuring the corporation is efficient, transparent and results focused by:
  - keeping corporate support costs at or below 7% of total budget;
  - implementing a rigorous performance management system;
  - monitoring and auditing funded projects according to explicit risk assessments.
- Adhering to government finance and administration policies and practices.
- Ensuring the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia.
- Continuously reviewing priorities and strategies to ensure that programs and services stimulate innovation in products and markets.
- Maximizing the financial contributions from key partners.
- Minimizing FII's carbon footprint and promoting environmentally responsible business activities.

[2] FII, together with the federal government, is phasing in higher cost-sharing requirements for the industry over time with a goal of achieving a balanced contribution from each program funder.

Performance Measure 4A: Timeliness of Annual Funding Cycle.

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Timeliness of annual funding cycle for trade associations, research institutes, and universities.	Competitive funding process completed by April 1	Competitive funding process completed by April 1	Competitive funding process completed by April 1	Competitive funding process completed by April 1	Competitive funding process completed by April 1	Competitive funding process completed by April 1	Competitive funding process completed by April 1

Data Source: FII

Discussion

Timeliness of annual funding cycle

Approximately half of FII's budget funds activities proposed through two annual Calls for Proposals: one for market initiatives and another for Wood First activities. The calls issued for the 2014/15 programs attracted 41 proposals describing hundreds of proposed activities and detailing cost estimates and cost-sharing. Proposals were peer reviewed and point-ranked against pre-set evaluation criteria. Through this process, FII made available a total of $8.3 million to 13 trade associations and research institutions during the year to undertake select market and business development activities.

Performance Measure 4A tracks how efficient FII is in managing the annual funding processes, a key objective of which is to ensure that funding is available to successful proponents by the start of each fiscal year.

Performance Measure 4B: Leveraged Funding.

Performance Measure	2011/12 Actual	2011/12 Actual	2013/14 Actual	2014/15 Target	2014/14 Actual	2015/16 Target	2016/17 Target
Other organizations' aggregate contribution to recipient funding program[3]	65%	65%	65%	65%	65%	65%	65%

Data Source: FII

[3] In its recipient funding program FII targets annual contributions of approximately 65% from other organizations; however, contributions from others vary from 0 to 85% depending on the specific activity. Contributions from individual organizations can also fluctuate considerably acro[illegible] years, depending on their programming priorities and budgets.

Discussion

Partner contributions

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs at a low cost to the B.C. taxpayers, a key efficiency objective in the Government's Taxpayer Accountability Principles Addendum. The willingness of industry, the

federal government and other provincial governments to contribute to market development activities is a direct indicator of the value they place on these activities. Data to support the measure are sourced from the on-line recipient-funding system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial reporting.

In addition to industry's contribution to the on-going recipient-funding program, FII also draws other leveraged funding for its market development programming. For 2014/15, other funding included:

- $750,000 from Natural Resources Canada for the India market development initiative; and
- $763,000 from the U.S.-based Softwood Lumber Board to support FII's delivery of the reThink Wood initiative aimed at promoting new wood-based building opportunities and technologies to the U.S. market.

The amount of other funding is also included in the Financial Summary Resource Table's budget forecast for 2015/16 and for 2016/17 (see page 16).

Financial Report

Management Discussion and Analysis

The following table summarizes the revenue that FII anticipated at the start of 2014/15, the actual revenue for the year, and what is anticipated for 2015/16:

	$ million		
Source	**Anticipated for 2014/15**	**Actual 2014/15**	**Anticipated for 2015/16**
The Province of British Columbia	17.0	16.8	17.4
Natural Resources Canada	0.6	1.0	0.7
Other	0.3	0.8	2.0
TOTAL	**17.9**	**18.6**	**20.1**

In 2014/15 Natural Resources Canada (NRCan) provided $750,000 to support FII India, and a further $321,000 to support other market development initiatives. NRCan has committed to providing $600,000 for FII India in 2015/16 and $100,000 to support other initiatives.

The year-over-year increase in revenue from other sources is largely attributable to the Softwood Lumber Board (SLB) contractually engaging FII to deliver the SLB's *reThink Wood* program in the United States. That arrangement will continue in 2015/16, with the SLB committing about $2 million.

In 2014/15, the funds that FII provided to other organizations through competitive calls for proposals amounted to 46 per cent of FII's total expenditures, with the balance being used for direct service delivery by FII in Vancouver and its two subsidiaries. The split will be essentially the same in the coming year.

FII ended the year with a surplus of $146,000 almost all of which was funding that recipients returned to FII because they cancelled or postponed projects that FII had agreed to cost-share. Recipient's year-end turn-back was considerably smaller than the historical average and reflects their more disciplined financial management.

Financial Resource Summary Table[3]

	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Budget	2014/15 Actual	Variance from 2014/15 Budget (under) over	Variance from 2013/14 Actual (under) over	2015/16 Budget	2016/17 Budget
Operating Revenue											
Receipts - Province of BC	$ 23,075	$ 18,898	$ 20,520	$ 17,208	$ 17,306	$ 17,000	$ 16,813	$ (187)	$ (493)	$ 17,370	$ 17,370
Receipts - Wenchuan Reconstruction	1,847	4,772	225	-	-	-		$ -	$ -	-	-
Receipts - Government - Other	3,341	2,360	284	624	731	600	1,028	$ 428	$ 297	700	700
Other Revenue	-	102	1,153	1,042	678	200	762	$ 562	$ 84	2,000	2,000
Total Revenue	$ 28,263	$ 26,132	$ 22,182	$ 18,874	$ 18,715	$ 17,800	$ 18,603	$ 803	$ (112)	$ 20,070	$ 20,070
Operating Expenses											
Market Outreach & Initiatives	17,443	14,467	15,935	13,463	12,901	11,800	12,274	474	$ (627)	13,820	13,800
China - Market Development	3,815	2,781	2,901	2,536	2,689	2,800	2,974	174	$ 305	2,928	3,000
China - Wenchuan Reconstruction	1,697	4,690	880	-	-	-	-	-	$ -	-	-
China - Demonstration Projects	3,035	2,677	1,015	-	-	-	-	-	$ -	-	-
India - Market Development	-	-	-	873	1,457	1,800	1,787	(13)	$ 330	1,872	1,800
Corporate Support	1,381	1,100	1,238	1,220	1,097	1,200	1,143	(57)	$ 46	1,250	1,270
Amortization	436	331	193	128	198	200	279	79	$ 81	200	200
Total Expenses	$ 27,807	$ 26,046	$ 22,162	$ 18,220	$ 18,322	$ 17,800	$ 18,457	$ 657	$ 135	$ 20,070	$ 20,070
Net Income from Operations	$ 456	$ 86	$ 20	$ 654	$ 393	$ -	$ 146	$ 146	$ (247)	$ -	$ -
Capital Expenditures	$ 230	$ 156	$ 204	$ 526	$ 238	$ 400	$ 469	69	$ 231	$ 100	$ 50
Total Liabilities	$ 4,232	$ 2,816	$ 1,969	$ 1,897	$ 2,100	$ 2,200	$ 2,905	705	$ 805	$ 1,900	$ 1,900
Accumulated Surplus/Retained Earnings	$ 1,064	$ 1,150	$ 1,170	$ 1,824	$ 2,217	$ 2,217	$ 2,363	146	$ 146	$ 2,363	$ 2,363

[3] The budgets in these columns have been taken from the FII Service plan published on February, 17, 2015; over time changes to these numbers can be anticipated.

Grant Thornton

Independent Auditor's Report

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To the Board of Directors of
Forestry Innovation Investment Ltd.

To the Minister of International Trade,
Province of British Columbia

We have audited the accompanying consolidated financial statements of Forestry Innovation Investment Ltd., which comprise the consolidated statement of financial position as at March 31, 2015 and the consolidated statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of Forestry Innovation Investment Ltd. for the year ended March 31, 2015 are prepared, in all material respects, in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of matter

Without modifying our opinion we draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Grant Thornton LLP

Vancouver, Canada
May 29, 2015

Chartered Accountants

Forestry Innovation Investment Ltd.
Consolidated Statement of Financial Position

(in thousands of dollars)

March 31	Note	2015	2014
Financial assets			
Cash		$ 2,372	$ 2,532
Accounts receivable		725	248
Due from Province of British Columbia		26	21
Due from other governments		592	214
Total financial assets		3,715	3,015
Liabilities			
Accounts payable and accrued liabilities	3	1,487	1,179
Due to Province of British Columbia		2	-
Due to other governments		21	19
Recipient payables	4	362	237
Deferred contributions	6	1,033	665
Total liabilities		2,905	2,100
Net financial assets		810	915
Non-financial assets			
Tangible capital assets	7	908	730
Prepaid expenses		645	572
Total non-financial assets		1,553	1,302
Accumulated surplus		$ 2,363	$ 2,217

Commitments (Note 8)

Approved by the Board

Director

Director

See accompanying notes to the consolidated financial statements.

Forestry Innovation Investment Ltd.
Consolidated Statement of Operations and Accumulated Surplus

(in thousands of dollars)

Year ended March 31	Note	Budget	2015	2014
Revenue	10			
Government contributions				
Provincial		$ 17,000	$ 16,813	$ 17,306
Federal		600	1,028	731
Other revenue		200	713	640
Investment income		-	49	38
		17,800	18,603	18,715
Expenses	10			
Funding recipient initiatives		9,030	8,808	9,140
Market initiatives and outreach				
FII Vancouver		3,070	3,466	3,761
FII China		2,800	3,009	2,708
FII India		1,700	1,948	1,532
Corporate services		1,200	1,226	1,181
		17,800	18,457	18,322
Annual surplus		-	146	393
Accumulated surplus, beginning of year		2,217	2,217	1,824
Accumulated surplus, end of year		$ 2,217	$ 2,363	$ 2,217

See accompanying notes to the consolidated financial statements.

Forestry Innovation Investment Ltd.
Consolidated Statement of Changes in Net Financial Assets

(in thousands of dollars)

Year ended March 31	Budget	2015	2014
Annual surplus	$ -	$ 146	$ 393
Acquisition of tangible capital assets	(225)	(469)	(238)
Amortization of tangible capital assets	255	279	198
Disposal of tangible capital assets	-	12	-
Acquisition of prepaid expenses	-	(73)	(132)
Increase (decrease) in net financial assets	30	(105)	221
Net financial assets, beginning of year	915	915	694
Net financial assets, end of year	$ 945	$ 810	$ 915

See accompanying notes to the consolidated financial statements.

Forestry Innovation Investment Ltd.
Consolidated Statement of Cash Flows

(in thousands of dollars)

Year ended March 31	2015	2014
Cash provided by (used in):		
Operating		
Annual surplus	$ 146	$ 393
Items not involving cash		
Amortization of tangible capital assets	279	198
Amortization of deferred contributions	(237)	(127)
Loss on disposal of tangible capital assets	12	-
Change in accounts receivable	(860)	894
Change in recipient advances and payables	125	566
Change in accounts payable and accrued liabilities	312	(137)
Change in prepaid expenses	(73)	(132)
	(296)	1,655
Capital		
Acquisition of tangible capital assets	(469)	(238)
Financing		
Receipt of deferred contributions	605	230
(Decrease) increase in cash	(160)	1,647
Cash, beginning of year	2,532	885
Cash, end of year	$ 2,372	$ 2,532

See accompanying notes to the consolidated financial statements.

1. General

Forestry Innovation Investment Ltd. (the "Company" or "FII Vancouver") was incorporated on March 31, 2003 under the laws of the Province of British Columbia (the "Province"). The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. Her Majesty the Queen in Right of the Province of British Columbia, as represented by the Minister of International Trade, holds the shares issued. A board of directors governs the Company, and all directors are appointed by the Province. The Company's principal activities are to fund forest industry associations and research institutions and to deliver market development and market initiatives and outreach programs.

2. Summary of significant accounting policies

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia which requires accounting policies which are consistent with Canadian public sector accounting standards except in regard to the accounting for restricted capital contributions.

Under Section 23.1 of the Budget Transparency and Accountability Act and its related regulations, the Company is required to recognize restricted capital contributions as a liability and recognize them into revenue on the same basis as the related amortization expense.

Under Canadian public sector accounting standards, those transfers with stipulations that have been met or that do not contain stipulations that create a liability, are fully recognized into revenue.

The impact of this difference on the consolidated financial statements of the Company would be a decrease in deferred capital contributions as at March 31, 2015, and increases in revenues and annual surplus for the year then ended.

(b) Reporting entity and basis of consolidation

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of the Company consolidated with FII Consulting (Shanghai) Co., Ltd. ("FII China"), a wholly-owned subsidiary registered under the laws of the People's Republic of China, 0939031 B.C. Ltd., a wholly-owned subsidiary registered under the laws of British Columbia and Forestry Innovation Consulting India Pvt. Ltd. ("FII India"), a wholly-owned subsidiary of the Company and 0939031 B.C. Ltd., registered under the laws of the Republic of India.

FII China is based in Shanghai, China, and FII India is based in Mumbai, India with both subsidiaries delivering market development programs on behalf of the Company. The subsidiaries are consolidated on a line-by-line basis after inter-organizational transactions and balances between these entities have been eliminated.

2. Summary of significant accounting policies (continued)

(c) Revenue recognition

Unrestricted contributions, donations and grants are recorded as revenue when receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Restricted contributions include amounts received from the Province and the Canadian Federal Government for specific purposes. Restricted contributions are recorded as deferred contributions when received or receivable. The deferred contribution and associated revenue are recognized based upon the nature of the restriction, as follows:

(i) Restricted capital contributions

Capital contributions for the purpose of acquiring or developing a depreciable tangible capital asset are recorded and referred to as deferred capital contributions. Deferred capital contributions are reduced and the associated revenue recognized at the same rate and in the same fiscal period that amortization is recognized in respect of acquired depreciable tangible capital asset used to provide services.

(ii) Other restricted contributions

Deferred contributions are reduced and the associated revenue recognized in the period during which the stipulation or restriction on the contribution have been met.

Investment income includes interest recorded on an accrual basis.

(d) Program expenses

Program expenses include amounts transferred to recipient organizations based on recipient funding contracts to carry out specific program activities. Amounts transferred are recognized as expenses in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met by the recipient, and reasonable estimates of the amounts can be made.

(e) Pension plans

The Company and its employees contribute to the Public Service Pension Plan, which is a multi-employer jointly trusteed plan. The plan is a defined benefit plan, providing pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. As the assets and liabilities of the plan are not segregated by employer, the plan is accounted for as a defined contribution plan and any Company contributions to the plan are expensed as incurred.

(f) Financial instruments

Financial instruments consist of cash, accounts receivable, amounts due from the Province, amounts due from other governments, accounts payable and accrued liabilities, amounts due to the Province, amounts due to other governments, and recipient payables.

The Company measures its financial instruments at cost or amortized cost.

2. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

For financial instruments measured at cost or amortized cost, transaction costs are added to the cost of the financial instruments.

Interest and dividends attributable to financial instruments are reported in the consolidated statement of operations.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated statement of operations.

There are no financial instruments measured at fair value; therefore, the consolidated financial statements do not include a consolidated statement of remeasurement gains and losses.

(g) Non-financial assets

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life
Computer equipment	3 years
Computer software	2 years
Furniture and equipment	5 years
Leasehold improvements	lesser of the lease term and its useful life
Tradeshow booths	3 years

Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt.

(iii) Interest capitalization

The Company does not capitalize interest costs associated with the acquisition or construction of tangible capital assets.

(iv) Intangible assets

Intangible assets are not recognized in these consolidated financial statements.

2. Summary of significant accounting policies (continued)

(h) Foreign currency translation

These consolidated financial statements are stated in Canadian dollars. The Company's foreign operations, conducted through FII China and FII India, are considered financially interdependent with the Company, and are translated from Chinese Renminbi (RMB) and Indian Rupee (INR) using the temporal method of translation. Accordingly, monetary assets and liabilities are translated at the spot exchange rates in effect at the date of the statement of financial position; non-monetary items are translated at historical exchange rates in effect on the dates of the transactions. Revenue and expense items are translated at monthly average exchange rates in effect during the month in which the transaction occurred, except for amortization which is translated at the historical exchange rate of the corresponding non-monetary item. Realized exchange gains and losses are included in the consolidated statement of operations.

(i) Budget

Budget data presented in these consolidated financial statements are based on the Company's Service Plans. The budget was approved by the Board of Directors on April 8, 2014.

(j) Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the useful lives of property and equipment. Actual results could differ from those estimates.

(k) Segment disclosures

A segment is defined as a distinguishable activity or group of activities of a government for which is it is appropriate to separately report financial information. The Company has provided definitions of segments used by the Company as well as presented financial information of the segments in Note 10.

(l) Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

3. Accounts payable and accrued liabilities

	2015	2014
Trade payables	$ 523	$ 310
Accrued liabilities	964	869
	$ 1,487	$ 1,179

4. Recipient payables

The Company's policy on recipient funding is to withhold a percentage of earnable administration costs from their interim advances. Recipients would qualify for this final funding amount withheld based on meeting eligible reporting criteria in the recipient reporting process.

As at March 31, 2015, the Company has identified $362 (2014 - $237) as payable to the recipient organizations.

5. Pension plans

The Company and its employees contribute to the Public Service Pension Plan, which is a multi-employer jointly trusteed plan. The plan is a defined benefit plan, providing pension on retirement based on the member's age of retirement, length of service and highest earnings averaged over five years. The board of trustees of the plan represents plan members and employers and is responsible for the management of the plan including investment of the assets and administration of the plan.

The most recent actuarial valuation for the Public Service Pension Plan as at March 31, 2014 indicated a $194 million funding surplus for basic pension benefits.

The plan is accounted for as a defined contribution plan. During the year ended March 31, 2015 the Company paid $135 (2014 - $28) for employer contributions to the plan.

6. Deferred contributions

Deferred contributions consist of contributions received from the Province for tangible capital assets and other capital and operating contributions for which goods and services remain outstanding. Deferred contributions are comprised of the following:

	Provincial	Other	**2015**	2014
Balance, beginning of year	$ 665	$ -	**$ 665**	$ 562
Contributions received during the year	516	89	**605**	230
Amounts amortized to revenue	(237)	-	**(237)**	(127)
Balance, end of year	$ 944	$ 89	**$ 1,033**	$ 665

Included in Provincial deferred contributions is $98 (2014 - $20) that is unspent.

7. Tangible capital assets

(a) Assets in use

Cost

	2014	Additions	Disposals	2015
Computer equipment	$ 704	$ 94	$ (86)	$ 712
Computer software	63	-	-	63
Furniture and equipment	322	89	(6)	405
Leasehold improvements	758	68	(7)	819
Tradeshow booths	522	218	-	740
	$ 2,369	$ 469	$ (99)	$ 2,739

Accumulated amortization

	2014	Amortization	Disposals	2015
Computer equipment	$ 578	$ 73	$ (85)	$ 566
Computer software	63	-	-	63
Furniture and equipment	247	25	(2)	270
Leasehold improvements	294	135	-	429
Tradeshow booths	457	46	-	503
	$ 1,639	$ 279	$ (87)	$ 1,831

Net book value

	2014	2015
Computer equipment	$ 126	$ 146
Computer software	-	-
Furniture and equipment	75	135
Leasehold improvements	464	390
Tradeshow booths	65	237
	$ 730	$ 908

(b) Assets disclosed at nominal values

The cost of tangible capital assets includes the fair market value of certain assets transferred to the Company from the Province effective April 1, 2003 for one dollar. These assets are now fully amortized.

8. Commitments

(a) The Company has lease commitments for its premises it occupies.

2016	$	1,189
2017		891
2018		324
2019		243
2020		-
Thereafter		-
	$	2,647

(b) The Company also has an obligation to pay $1,524 (2014 - $447) for contracts entered into and not yet completed at March 31, 2015.

(c) Cash consists of an operating line of credit with HSBC Bank of Canada with maximum available credit of $2,000,000 which incurs interest at prime plus 1.5% per annum. As of March 31, 2015, no amounts have been withdrawn through the utilization of the credit line.

9. Financial instruments risk management

The Company has exposure to the following risks from its use of financial instruments:

Credit risk

Credit risk is the risk that the Company's counterparties default or become insolvent.

The Company is potentially exposed to credit risk through cash, accounts receivable, amounts due from the Province, and amounts due from other governments. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. Accounts receivable consist mainly of cost share agreements which are monitored on a regular basis. Amounts due from the Province and amounts due from other governments consist of reimbursement claims. It is the Company's opinion that its exposure to credit risk is subject to normal industry risks and is considered minimal.

As at March 31, 2015, accounts receivable, amounts due from the Province, and amounts due from other governments are comprised of:

	Under 90 days	Over 90 days	Total
Accounts receivable	$ 725	$ -	$ 725
Due from Province of British Columbia	26	-	26
Due from other governments	592	-	592
Allowance for doubtful accounts	-	-	-
	$ 1,343	$ -	$ 1,343

9. Financial instruments risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company manages its exposure to liquidity risk by maintaining sufficient cash balances throughout the year to meet its short-term obligations. It is the Company's opinion that its exposure to liquidity risk is subject to normal industry risks and is considered minimal.

Market risk

Market risk is the risk that fluctuations in market prices will affect the Company's net financial assets. Market risk comprises two types of risk:

Currency risk and foreign denominated cash
Currency risk is the risk that fluctuations in foreign currencies will affect the Company's net financial assets denominated in foreign currencies.

The Company is subject to foreign exchange risk through its program payables and program advances and a portion of the Company's program and tradeshow costs, which are denominated in Chinese Renminbi, Indian Rupee and United States Dollars. The Company manages its exposure to currency risk by monitoring its assets and liabilities denominated in foreign currencies and purchasing foreign denominated currency to pay upcoming commitments when the market conditions are favourable. The Company does not use derivatives instruments to reduce its exposure to foreign currency risk. Included in office costs is $148 (2014 – ($3)) foreign exchange gains (losses).

The amounts shown are translated to Canadian dollars at the closing rate:

	2015			
	USD	**RMB**	**INR**	**Total**
Cash	**$ 176**	**$ 391**	**$ 259**	**$ 826**
Accounts receivable	**-**	**13**	**235**	**248**
Accounts payable	**-**	**248**	**439**	**687**

	2014			
	USD	RMB	INR	Total
Cash	$ 940	$ 305	$ 208	$ 1,453
Accounts receivable	-	6	69	75
Accounts payable	-	331	276	607

Interest rate risk
Interest rate risk is the risk that fluctuations in interest rates will affect the Company's net financial assets that bear interest at variable rates. The Company manages its exposure to interest rate risk by investing in interest bearing cash accounts.

10. Segmented information

Segmented information has been identified based upon programs provided by the Company. Company programs and their activities are reported by functional area in the body of the consolidated financial statements. Programs that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

(a) Funding Recipient Initiatives

Uses project funding delivered through an annual "Call for Proposals" in partnership with the Government of Canada to fund forest industry associations and research institutions, to:

- Maintain and create opportunities for B.C. wood products in existing and emerging markets;
- Ensure that customers, consumers, designers, builders, developers and architects know about B.C. wood products and the many positive features they bring to wood-frame construction and interior finishing;
- Support the development of innovative new forest products; and
- Provide interested parties around the world with information on the properties and qualities of B.C.'s forest products and the B.C. companies that supply them.

(b) Market Initiatives and Outreach Program

(i) FII Vancouver Initiatives

Internally directs delivered programs that:

- Identify potential opportunities for B.C. forest products through market research and develop market access strategies;
- Ensure B.C. forest products have access to markets free from regulatory and other barriers through initiatives and research; and
- Provide customers and foreign regulators with facts about the environmental merits of B.C. forest products, including the sustainable forest management regime that underlies their production.

(ii) FII China Initiatives

FII China has a mandate to increase the volume and value of B.C. lumber exports to China by expanding the share of wood frame construction in China's building sector. FII China focuses on the following activities:

- Expanding and strengthening relationships with central and regional government agencies responsible for building and construction in China and with large state-owned developers, emphasizing the pursuit of strategic and joint initiatives;
- Building partnerships with established market leaders in China's development sector and supporting these companies in areas of concept development, planning and design, code application, and resource integration; and
- Working closely with Canadian forest industry trade association staff to expand China's technical capacity to deploy wood frame construction.

10. Segmented information (continued)

(b) Market Initiatives and Outreach Program (continued)

(iii) FII India Initiatives

FII India has a mandate to establish a local presence in India for B.C. and Canadian forest products companies; develop working relationships with government officials, regulatory agencies, and the wood user community; and position B.C. and Canadian forest products for future growth. The operation focuses on early-market (pre-commercial) development activities, including:

- Supporting development of the market for B.C. and Canadian forest products through market research;
- Promoting B.C. and Canadian wood species in various end-uses;
- Educating the market place on B.C. and Canadian wood species and their proper use;
- Providing intermediation with Indian regulatory authorities; and
- Providing direct support for B.C. companies entering the India market

(c) Corporate services

Corporate services performs the following activities:

- Ensures financial reporting to government standards;
- Provides Human Resource, IT and office services to meet organizational needs;
- Oversees budget and planning controls in alignment with strategic objectives; and
- Provides corporate communication and analytical services to meet internal and external needs.

10. Segmented information (continued)

	Recipient Funding Initiatives	Market Initiatives and Outreach			Corporate Services	**2015 Total**	2014 Total
		FII Vancouver	FII China	FII India			
Revenues							
Government contributions							
Provincial	$ 9,030	$ 2,683	$ 2,800	$ 1,100	$ 1,200	**$ 16,813**	$ 17,306
Federal	114	164	-	750	-	**1,028**	731
Other revenue	-	638	-	71	4	**713**	640
Investment income	-	-	-	-	49	**49**	38
Total revenues	9,144	3,485	2,800	1,921	1,253	**18,603**	18,715
Expenses							
Amortization	-	-	35	161	83	**279**	198
Auditing	174	-	39	20	53	**286**	156
Grants	240	-	10	-	-	**250**	854
Office costs	-	269	523	496	160	**1,448**	1,137
Professional services	95	1,692	774	436	276	**3,273**	3,219
Program costs	7,993	199	177	82	(114)	**8,337**	8,632
Salaries, wages and benefits	306	1,154	1,216	426	694	**3,796**	3,358
Trade missions	-	20	7	102	-	**129**	77
Travel and business costs	-	132	228	225	74	**659**	691
Total expenses	8,808	3,466	3,009	1,948	1,226	**18,457**	18,322
Annual surplus (deficit)	$ 336	$ 19	$ (209)	$ (27)	$ 27	**$ 146**	$ 393

Appendix A: Subsidiaries and Operating Segments

Active Subsidiaries

FII operates the following subsidiary companies:

FII Consulting (Shanghai) Co. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: Supporting the B.C. forest industry by providing market research, technical wood frame building expertise and related liaison with Chinese government authorities on behalf of the B.C. forest sector.

Objective: To grow the market for B.C. wood products in China, primarily by creating new demand for structural lumber and related building products.

Governance: Sole Executive Director: Ken Baker, CEO, FII

Senior Management: Lisa Dou, General Manager

Financial Resource Summary Table
FII Consulting (Shanghai) Co. Ltd.

	2013/14 Actual	2014/15 Budget	2014/15 Actual	2015/16 Budget	2016/17 Budget
Operating Revenue					
Receipts - Forestry Innovation Investment	$ 2,669	$ 2,800	$ 2,974	$ 2,928	$ 3,000
Total Revenue	$ 2,669	$ 2,800	$ 2,974	$ 2,928	$ 3,000
Operating Expenses					
China - Market Development	2,669	2,800	2,974	2,928	3,000
Total Expenses	$ 2,669	$ 2,800	$ 2,974	$ 2,928	$ 3,000
Net Income from Operations	$ -	$ -	$ -	$ -	$ -

FII Consulting India Private Limited (jointly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.[3])

Primary business: Supporting the development of the Indian market for B.C. forest products through market research, promoting B.C. wood products and related technologies, providing intermediation with India regulatory authorities, and providing direct support for B.C. companies entering the India market.

[3] This joint ownership exists to meet India's requirement that there be at least two shareholders of a foreign-owned company.

Objective: To establish a new market for B.C. wood products in India by creating demand for lumber suitable to the manufacture of furniture, doors and windows, interior millwork and other non-structural products.

Governance: Four-member Board of Directors:

- Michael Loseth (Chair), Chief Operating Officer, FII
- Ken Baker, CEO, FII
- Douglas Greig, Vice President and Chief Financial Officer, FII
- Mahadev Mulgir, Financial Administrator, FII India

Senior Management: Pranesh Chhibber, Country Director, FII India

Financial Resource Summary Table
FII Consulting India Private Limited

	2013/14 Actual	2014/15 Budget	2014/15 Actual	2015/16 Budget	2016/17 Budget
Operating Revenue					
Receipts - Forestry Innovation Investment	$ 857	$ 1,200	$ 1,037	$ 1,272	$ 1,800
Receipts - Natural Resources Canada	$ 600	$ 600	$ 750	$ 600	
Total Revenue	$ 1,457	$ 1,800	$ 1,787	$ 1,872	$ 1,800
Operating Expenses					
India - Market Development	1,457	1,800	1,787	1,872	1,800
Total Expenses	$ 1,457	$ 1,800	$ 1,787	$ 1,872	$ 1,800
Net Income from Operations	$ -	$ -	$ -	$ -	$ -

Inactive Subsidiary

FII maintains a non-operating subsidiary company, **0939031B.C. Ltd.** (wholly owned by Forestry Innovation Investment Ltd.) whose sole purpose is to function as the second shareholder of FII Consulting India Private Limited (reflecting India legislation that requires foreign-owned companies to have at least two shareholders).

Appendix B –Additional Information

Corporate Governance

FII is responsible to the Minister of International Trade through a four-member Board of Directors. The Government appoints the Board to set operational policy, and, in cooperation with senior management, to set strategic direction. The Board monitors FII's performance based on the Province's planning and reporting principles. The Board appoints the CEO and delegates responsibility to the CEO for the day-to-day leadership and management of the organization.

The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations. FII's Status of Concurrence with Best Practices Guidelines is available on the Company's website.

Full details on the role and membership of the Board of Directors, as well as corporate reports, and details on adherence to the requirements of the Board Resourcing and Development Office are also available on the www.bcfii.ca web site.

Organizational Overview

FII works with the forest industry, the Government of Canada, research institutions, and other stakeholders to deliver forward looking, innovative market development programs. To provide the best value to taxpayers and stakeholders, and reflecting the Province's Taxpayer Accountability Principles Addendum, FII uses a joint delivery model for program delivery. This approach takes advantage of industry expertise and marketing networks, and ensures that program costs are shared with other organizations.

Details on the mandate of FII, its vision, mission and values, and its organizational structure are available on the www.bcfii.ca web site.

Additional information on FII is also available at www.bcfii.ca. A *Report to Stakeholders* published in November 2014 highlights accomplishments in major markets around the world. The Report to Stakeholders as well as previous Service Plans and Annual Service Plan Reports are available at www.bcfii.ca.

Comprehensive information about B.C.'s sustainable forest management practices and products is available at www.naturallywood.com, with links to many forest-product companies and trade associations.